

MANUFACTURING

Economic Overview
& Market Update



- 02 Introduction
- 02 A Year in Review
- 04 Regulation Challenges
- 05 Key Insurance Coverages to Watch
- 07 In Summary



INTRODUCTION

The manufacturing industry is undergoing significant transformation, driven by advancements in automation, digitalization, and sustainable practices. These innovations bring along critical risk factors, including cybersecurity threats, supply chain disruptions, shifting regulation, and the challenges of workforce reskilling. Understanding these trends and mitigating associated risks will be essential for manufacturers aiming to stay competitive and resilient in an ever-evolving landscape.



A YEAR IN REVIEW

Six trends shaped the manufacturing industry in 2024 and highlighted the industry's commitment to innovation, sustainability, and resilience, setting the stage for combined growth and transformation in the coming years.

1. Digital Transformation "Industry 4.0"

Smart factories and the industrial metaverse are becoming more prevalent, enhancing efficiency and productivity.¹ A recent study found that 86% of surveyed manufacturing executives believe smart factory solutions will drive their competitiveness. In another study, manufacturers indicated that adapting the industrial metaverse would improve production and could address ongoing labor issues.

2. Sustainability

Sustainability efforts are growing as manufacturers focus on reducing carbon footprints and achieving net-zero emissions goals.² Since the passage of the Inflation Reduction Act in August of 2022, an influx of federal money and incentives have spurred investments in decarbonization and electrification, led by clean vehicle and battery manufacturing, totaling \$88 billion in potential investments. The industry faces challenges in realizing a net-zero future, including technical readiness, transition costs, and supply chain concerns.

U.S. manufacturing has grown significantly since 2021 due in large part to the Creating Helpful Incentives to Produce Semiconductors (CHIPS) and Science Act, as well as the Infrastructure Investment and Jobs Act (IIJA) and the Inflation Reduction Act (IRA). The industry realized record private sector investment beyond the funding and incentives government initiatives provide. Close to 200 new clean technology manufacturing facilities have been announced, and construction spending on manufacturing increased 70% year-over-year in 2023.

3. Reshoring

Many companies are moving their manufacturing operations back to their home countries to reduce dependency on global supply chains and improve resilience.³ Manufacturers see reshoring as an opportunity to bring significant cost savings by reducing transportation costs, improving delivery times, and improving response time to market demands. Companies view reshoring as a movement towards a more sustainable and responsive industry model.



4. Workforce Development

Companies are investing in training programs and technologies to upskill their workforce and proactively adjusting policies to attract and retain workers, such as flexible scheduling and pay increases.⁴ Manufacturers are adapting to new technologies, developing alumni programs, and collaborating with STEM programs to help upskill current and new employees to ensure a future talent pipeline.

There was a direct connection between manufacturers, technical colleges, and high schools, a system that deteriorated over the past few decades. Companies are tapping into these avenues to foster career pathways and upskill their future workforce. Trade associations are again booming, creating programs tailored to shared workforce development needs. They are receiving increasing support from local and state governments and workforce development groups through investments and incentives designed to bolster regional manufacturing. Companies are also tapping into talent pipelines such as apprenticeships and work-study programs and reaching out to areas such as veterans, refugees and immigrants, and formerly incarcerated individuals.

There are 2.1 million potential unfilled jobs by 2030. A focus on recruiting employees from underrepresented groups would broaden the talent pool and mitigate hiring challenges. An analysis of Fortune 500 manufacturing companies found that companies that employ a diverse workforce realize stronger financial performance. Finding and retaining a skilled workforce may be the most challenging issue facing the manufacturing industry in the next few years.

5. Supply Chain Digitalization

Advanced analytics and Internet of Things Software (IoT) are being used to enhance resilience and improve supply chain visibility and efficiency.⁵ While production material delivery times have improved since the all-time peak of 100 days in July 2022⁶, it has not returned to pre-pandemic levels. The semiconductors industry is likely to see this impact the most.

Manufacturers continue to seek ways to improve the supply chain, tracking prototypes and through production. Supply chain visibility remains a top priority for more than half of manufacturers.⁷ Companies are now prioritizing resiliency and optimization to realize value in their supply chains, and they're expanding to locations within the United States and working more closely with U.S. free-trade partners, particularly Mexico, which has overtaken China to become the leading trading partner.⁸ Supply chains normalized since the COVID-19 pandemic. However, late 2023 and the first quarter of 2024 did see an uptick in supply chain challenges, further motivating companies to keep exposures low, particularly concerning transportation and logistics. Ongoing geopolitical tensions and evolving trade policies will continue to affect global supply chains.⁹ Tariffs are likely to impact manufacturing, increase costs for imported components, and push companies to diversify their supply chains, seeking alternative regions.

6. Economic Resilience

Manufacturers are developing strategies to navigate economic uncertainties and disruptions, ensuring they can maintain operations and growth even in challenging times.¹⁰ They adapt flexible and agile business models, allowing reactive and proactive responses to fluctuating market demands. The objective is to navigate an ever changing and unpredictable market landscape.

REGULATION CHALLENGES

In 2025, the manufacturing sector is expected to face several significant regulatory challenges and legislative changes:

1. **Environmental Regulations:** The Environmental Protection Agency (EPA) continues implementing stringent rules to reduce emissions and promote sustainability. These regulations can increase operational costs for manufacturers but are crucial for environmental protection.¹¹
2. **Cybersecurity and Data Privacy:** With the rise of digital manufacturing and Industry 4.0, cybersecurity and data privacy regulations are becoming more stringent. Manufacturers must invest in robust cybersecurity measures to comply with these regulations.¹²
3. **Workplace Safety and Labor Laws:** There will be an increased focus on workplace safety and labor rights. New regulations may include stricter safety protocols and enhanced worker protections, impacting manufacturers' workforce management.¹³
4. **Trade Policies and Tariffs:** Geopolitical tensions and trade policies will continue influencing manufacturing. Changes in tariffs and trade agreements can affect supply chains and the cost of raw materials.¹⁴
5. **Financial Regulations:** Financial regulations, particularly those affecting small manufacturers, are expected to evolve. These regulations can impact smaller manufacturing firms' access to capital and financial stability.

These regulatory changes aim to balance economic growth with environmental sustainability, worker safety, and data security. Staying informed and adaptable will be key for manufacturers navigating these evolving landscapes.



KEY INSURANCE COVERAGES TO WATCH

Auto/Fleet

- + By securing comprehensive automobile and fleet insurance, manufacturing companies can protect their assets, ensure operational continuity, and enhance safety.
- + Companies with large fleets may be utilizing telematics solutions that monitor driving behavior and vehicle usage to help improve safety. Carriers view this as a proactive mitigation tool on the part of the business.
- + Auto rates continue to increase by 10%-15% annually regardless of an accounts' loss history.

Cyber

- + Carriers continue to improve underwriting with a dynamic application process that includes static underwriting questions, cyber risk assessment tools, and underwriter calls to drill down on bespoke cybersecurity practices by the company.
- + Manufacturers are vulnerable to cyber risk and the risk is growing, which can result in large claims.
- + Operational and administrative technology used by manufacturers are both being evaluated relative to cyber coverage placement.

Directors & Officers Liability

- + Very few lines of coverage see significant fluctuations based on macro and micro-economics as directors & officers' liability. The impetus of environmental, social, and governance (ESG), volatile geopolitical landscapes, litigation, and nuclear verdicts were a few challenges to carriers in 2023-2024.

- + Ever-changing regulations worldwide meant continuous evolution in coverage, claims, and legal responses. In 2023 alone, there have been significant updates to the FDA, FTC, and SEC regulations of cyber and how it affects directors' & officers' liability coverages.

Global Liability

- + Manufacturers operate across international borders, leveraging global supply chains, markets, production facilities, and innovation networks to enhance their competitiveness and economic impact.
- + A strong global risk assessment, insurance, and regulations are imperative whether a company tracks global sales or has offices and warehouses worldwide.

Intellectual Property

- + Intellectual Property (IP) insurance provides several key benefits for businesses and individuals seeking to protect their intellectual assets. Coverage options include legal costs for defending against IP infringement claims and enforcement of IP rights against infringers, allowing companies to take action to protect patents, trademarks, copyrights, and trade secrets.



- + New market entrants and market capacity have made obtaining coverage easier and more affordable.
- + Coverage will remain important as artificial intelligence (AI) and copyright issues emerge.

Products/Product Recall

- + With everchanging global regulatory standards and product safety rules, the risk of experiencing product recall has increased.
- + Coverage remains available in the non-admitted markets and can help recover costs associated with recalling a product from the market.

Professional Liability, Errors & Omissions (E&O)

- + Professional liability coverage provides third-party liability coverage for claims alleging financial damages arising out of a manufacturing error or negligent service.
- + There are several important factors when considering coverage including end use of the product, complexity of products manufactured, product lifecycle and evolving regulations.
- + Companies that utilize advanced manufacturing processes may need a more tailored solution with bespoke coverage.
- + Structuring of the policy is critically important to ensure that coverage dovetails with other lines such as product liability, product recall, and cyber coverage.

Property

- + The market for property insurance remains a vital component of the risk management portfolio for manufacturers, providing essential protection of physical assets and ensuring business continuity in the face of unexpected events, given significant investments in facilities, equipment, and inventory.
- + Property insurance rates are rising and have flattened in Q4 2024. Rate increases occurred across catastrophic exposed and non-catastrophic exposed property due to reinsurance.
- + Carriers spread rates increase across all clients and geographical regions to maintain profitability.

Workers' Compensation

- + Workers' compensation is essential for manufacturers to protect employees, comply with legal requirements, maintain financial stability, promote workplace safety, boost employee morale, and manage risks effectively.
- + The market for workers' compensation remains soft with available capacity. Rate increases are down or flat.



IN SUMMARY

The insurance landscape for the manufacturing industry is growing in complexity as insurers aim to keep pace with regulation and advanced technological processes. It remains critical to be as transparent as possible with your broker and the insurance marketplace to unlock the best combination of coverage and cost. Brokers specializing in this space understand how to translate intricate processes into simple terms that the market can understand. Keys to success with upcoming insurance renewals/placements include:



BEGIN THE RENEWAL PROCESS EARLY

Collaborate with your broker to prepare for upcoming changes and enhance your chances of a successful renewal. Carriers often require additional time to evaluate risks, and IMA's team of risk control experts is ready to assist you throughout the process.



PARTNER WITH INDUSTRY EXPERTS

Working with your broker's industry experts who understand the business and the market when placing a specific risk is important. Collaborating with a team that can best represent your risk and partner with your operations is more important than ever during this disciplined market we are experiencing. Deep collaboration among the global teams assists clients from a risk management and insurance perspective and can better assess and track pending regulations in the country in real-time.



HIGHLIGHT CYBER SECURITY & PROACTIVE RISK MANAGEMENT

IMA has a team dedicated to managing cyber risks. They offer expert assistance, including coverage analysis, financial loss exposure benchmarking, contract language review, in-depth cyber threat analysis, and strategic development of comprehensive, high-value cyber insurance programs.



CONTRACT REVIEW

Our contract review teams add value to our clients' overall risk management program by ensuring the indemnity language is market standard and doesn't expose our clients to unforeseen losses that may not be insurable.



ENGAGE SUSTAINABILITY

Sustainable technology is a broad term that alludes to many tactics to protect our future environment. IMA invests heavily to deploy specialty niche teams concentrating on cutting-edge technology, green energy initiatives, and advanced manufacturing. As every client is different, our Sustainability Advisory team provides education, advice, and access to tools and best practices to advance their sustainability resiliency and showcase their ESG performance for insurance underwriters.



MARKETS IN FOCUS CONTRIBUTORS

JEN SHERIDAN | *Vice President and Manufacturing Practice Leader, Advanced Industries Specialty*

MELISSA GREENWOOD | *Associate Vice President, Property & Casualty*

ANGELA THOMPSON | *Senior Marketing Specialist, Market Intelligence & Insights*

BRIAN SPINNER | *Senior Marketing Coordinator, Market Intelligence & Insights*

KEEP READING

GENERAL EDITION

INSURANCE INSIGHTS

HR INSIGHTS

FOR ANY QUESTIONS, PLEASE REACH OUT TO:



JEN SHERIDAN

Vice President And Manufacturing Practice Leader, Advanced Industries Specialty
jen.sheridan@imacorp.com

Sources:

- 1 Coykendall, Hardin, Morehouse. (2023, October 30). *2024 manufacturing industry outlook*. Deloitte. <https://www2.deloitte.com/us/en/insights/industry/manufacturing/manufacturing-industry-outlook.html>
- 2 Coykendall, Hardin, Morehouse (2023).
- 3 Elisaindustriq (2023, December 19). *Manufacturing in 2024: an industry outlook*. Elisaindustriq. <https://elisaindustriq.com/blogmanufacturing-trends-2024/>
- 4 Coykendall, Hardin, Morehouse (2023).
- 5 Coykendall, Hardin, Morehouse (2023).
- 6 Material Handling and Logistics Staff. (2023, November 6). *2024 Will See Continued Push to Digitize Supply Chains*. MHLNews. <https://www.mhlnews.com/global-supply-chain/article/21276896/2024-will-see-continued-push-to-digitize-supply-chains>
- 7 Evans, D. (2024, June 11). *Manufacturing Industry Trends 2024: The Economy, AI, And Supply Chain*. Forbes. <https://www.forbes.com/sites/daveevans/2024/06/11/manufacturing-industry-trends-2024-the-economy-ai-and-supply-chain/>
- 8 Kilpatrick, et al. (2024, May 23). *Restructuring the supply base: Prioritizing a resilient yet efficient supply chain*. Deloitte. <https://www2.deloitte.com/us/en/insights/industry/manufacturing/global-supply-chain-resilience-amid-disruptions.html>
- 9 Molex. (2024). *Supply Chain Outlook for 2025: A Data-Driven Perspective from Molex*. Molex. <https://www.molex.com/en-us/blog/molex-supply-chain-outlook-for-2025>
- 10 Elisaindustriq (2023).
- 11 Gray. (2024). *How Regulation Is Affecting the U.S. Manufacturing Industry*. Gray. <https://www.gray.com/insights/how-regulation-is-affecting-the-u-s-manufacturing-industry/>
- 12 Matsuo, A. (2024). *2025: The Year of Regulatory Shift: Anticipated regulatory volume, complexity, and impact*. KPMG. <https://kpmg.com/us/en/articles/2024/2025-the-year-of-regulatory-shift.html>
- 13 Mayette, A. and Potter, T. (2024, October 24). *Legal Insights for Manufacturing: A look ahead at the issues that will shape 2025 for the manufacturing industry*. Hursch Blackwell. <https://hbfiles.blob.core.windows.net/webfiles/Legal-Insights-For-Manufacturing-2025.pdf>
- 14 Morgan, Cortney and Wilson, Dan. (2024, October 24). *Legal Insights for Manufacturing: A look ahead at the issues that will shape 2025 for the manufacturing industry*. Hursch Blackwell. <https://hbfiles.blob.core.windows.net/webfiles/Legal-Insights-For-Manufacturing-2025.pdf>

This material is for general information only and should not be considered as a substitute for legal, medical, tax and/or actuarial advice. Contact the appropriate professional counsel for such matters. These materials are not exhaustive and are subject to possible changes in applicable laws, rules, and regulations and their interpretations.